



# **JIKO** **POLICY** **PAPER**

**No. 04/2016**

## **Shaping the Paris Mechanisms** A Summary of Submissions on Article 6 of the Paris Agreement

**Wolfgang Obergassel**

## Disclaimer

The positions expressed in this paper are strictly those of the authors and represent neither the opinion of the Wuppertal Institute nor of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

The Wuppertal Institute is carrying out the “JIKO”-project on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

### **Internet**

[www.carbon-mechanisms.de/en/](http://www.carbon-mechanisms.de/en/)  
<http://wupperinst.org/en/p/wi/p/s/pd/592/>

### **Contact**

Wolfgang Obergassel  
Email: [wolfgang.obergassel@wupperinst.org](mailto:wolfgang.obergassel@wupperinst.org)

Wuppertal Institute for Climate, Environment and Energy  
Döppersberg 19 • 42103 Wuppertal • Germany  
[www.wupperinst.org](http://www.wupperinst.org)

November 2016

Cover Photo: Lillgrund wind power farm by Vattenfall / Flickr.com / CC BY-NC-ND 2.0

# **Shaping the Paris Mechanisms**

## **A Summary of Submissions on Article 6 of the Paris Agreement**

Wolfgang Obergassel

# Contents

<b>Summary .....</b>	<b>II</b>
<b>1 Introduction .....</b>	<b>5</b>
<b>2 Cooperative Approaches .....</b>	<b>6</b>
2.1 Overview .....	6
2.2 Nature of ITMOs .....	6
2.3 Scope of Cooperative Approaches .....	7
2.4 Scope of the Guidance and Governance to Ensure Environmental Integrity .....	8
2.5 Accounting .....	9
<b>3 The “Sustainable Development Mechanism” .....</b>	<b>15</b>
3.1 Overview .....	15
3.2 Scope of the Mechanism.....	15
3.3 Ambition .....	16
3.4 Institutional Arrangements .....	17
3.5 Methodologies and Accounting.....	19
3.6 Sustainable Development.....	20
3.7 Transition from the CDM .....	21
<b>4 Non-Market Approaches .....</b>	<b>23</b>
<b>5 Summary and Conclusions.....</b>	<b>27</b>



# Summary

Article 6 of the Paris Agreement established three approaches for countries to cooperate with each other: cooperative approaches, a new mechanism to promote mitigation and sustainable development (“sustainable development mechanism”), and a framework for non-market approaches. However, while the “sustainable development mechanism” seems familiar as its principles strongly resemble the Kyoto Protocol’s Clean Development Mechanism (CDM), the other two approaches have so far not been clearly defined conceptually. Views by Parties and observers that were submitted at the end of September reveal some sharp differences in opinions on how Art. 6 should work.

## **What Are ITMOs?**

Art. 6.2 and 6.3 provides the option for Parties to directly engage in “cooperative approaches” and to use “internationally transferred mitigation outcomes” (ITMOs) in achieving their nationally determined contributions (NDCs). While a mitigation outcome could in theory be expressed in terms of GHGs or in terms of non-GHG indicators (e.g. renewable energy capacity), which some NDCs focus on, among the Parties that express themselves on this issue there so far is a clear preference to define ITMOs in tonnes of CO<sub>2</sub>-equivalent. However, there is a split on what cooperative approaches are. While some hold that the concept should include any kind of cooperation between two or more countries seeking to transfer mitigation outcomes, others hold that Art. 6.2 should only provide for international transfers of mitigation surpluses for the achievement of NDCs. In their view Art. 6.2 is not to cover domestic, subnational or regional emissions trading schemes.

## **Raising Ambition**

While the Paris Agreement mandates that Art. 6 should contribute to increasing climate ambition, most submissions do not discuss this issue in detail. Many simply assume that being able to cooperate will allow Parties to be more ambitious in their NDCs by making use of lower marginal abatement costs and/or foreign direct investment. By contrast, Brazil stipulates that only absolute emission reductions going beyond NDCs should be eligible to be transferred.

## **Promoting Sustainable Development**

Similar to the question of ambition, while the Paris Agreement mandates that Art. 6 should promote sustainable development, many submissions do not discuss this issue at all. The submissions that do discuss the subject mainly revolve around the question of whether there should be international provisions on the promotion of sustainable development, or whether these should be left to the host countries. In the first group, some suggest that the UN Sustainable Development Goals provide a universal definition of sustainable development that could be used for assessing activities.

One Party notes that as in other provisions under Art. 6, it may be necessary for all Parties engaging in cooperative approaches to demonstrate adherence to the requirement of promoting sustainable development.

## **Who Will Guide Cooperative Approaches?**

On governance, there is a split on the question to what extent rule setting and enforcement should be done centrally, or be left to individual countries.

## **What Types of Activities under the “Sustainable Development Mechanism”?**

In contrast to the Kyoto Protocol, the Paris Agreement does not specify that the new “sus-

tainable development mechanism” is about “projects”, raising the question of the level of aggregation of activities (projects, programmes and/or sectors). Some countries argue for an “inclusive” approach in which projects, programmes of activities and sectoral approaches should all be eligible under the mechanism. Others envisage the mechanism to operate only at the project level, with rules very similar to those of the CDM.

### **Accounting for National Policies in the Sustainable Development Mechanism**

When the rules for the CDM were discussed there was a fear of creating a perverse incentive for developing countries not to strengthen climate policies. The setting under the Paris Agreement is very different in that now all countries are expected to actively contribute to combating climate change. In the submissions, there is a corresponding consensus that additionality and baselines will need to account for national policies, except where NDCs are explicitly made conditional on the provision of climate finance.

### **Accounting Emissions**

Due to the a huge variety of NDC types, accounting under the Paris Agreement will be much more complex than under the Kyoto Protocol. Some countries therefore consider that countries wishing to participate in cooperative approaches and the new mitigation mechanism should be required to establish and quantify a budget of emission allowances or an annual trajectory of emissions towards their NDC objectives. Others suggest to further explore how reconciliation might occur between Parties with different NDC types.

Various Parties note that accounting for Art. 6 needs to be seen in the context of the work on broader accounting under Article 4.13, and on broader transparency under Article 13. They suggest that arrangements under Art. 6 are ad-

ditional to those under Art. 4.13 and applicable only where Parties participate in transfers.

### **Defining Non-Market Approaches**

Adoption of the framework for non-market approaches was mainly pushed by the Like-Minded Developing Countries. In their submission, they outline some of the main purposes of the framework as assisting countries in implementing their NDCs in a holistic manner by facilitating access to finance, technology transfer, and capacity building for mitigation and adaptation, and contributing to map and register needs of countries and assisting them in matching them with means of implementation, as well as monitoring the support provided.

Other countries caution to avoid duplication of work with other processes under the UNFCCC. They suggest to focus discussions on possible synergies and coordination in non-market cooperation. Various countries also suggest specific issues that could usefully be tackled under the new framework, such as fossil fuel subsidy reform.

### **Ways Forward?**

Some of the discussions on Art. 6 are continuations of previous discussions on establishing a “new market mechanism” and/or a “framework for various approaches”. These discussions had for years revolved around the question of whether governance should be centralised or decentralised. Similarly, discussions on the scope of the “sustainable development mechanism” echo past discussions on whether the “new market mechanism” should operate at the project or at the sector level.

Remarkably, discussions on non-market approaches seem to have moved past controversies on the usefulness of this issue, or lack thereof. There seems to be some convergence on the way forward: listing and working out examples and on this basis identify how to move on.

For the other two mechanisms, it may also be useful to take a step back and first discuss what issues will need to be resolved to make Article 6 operational. This approach is taken by the submissions of Canada and the EU. While the other countries lay out their positions in their submis-

sions, Canada and the EU mostly lay out questions that will need to be answered. First getting a clearer picture of issues to be resolved may help defuse some of the controversies that have accumulated over the past years.

# 1 Introduction

Art. 6.1 of the Paris Agreement recognizes “that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity.”

Art. 6 subsequently establishes three approaches for countries to cooperate with each other:

- First, Art. 6.2 and 6.3 provides the option for Parties to directly engage in “cooperative approaches” and to use “internationally transferred mitigation outcomes” in achieving their NDCs. International supervision of these cooperative activities is not foreseen, but a work programme was agreed to develop guidance for Parties that want to engage in cooperative approaches.
- Second, Art. 6.4-6.7 establishes a new mechanism “to contribute to the mitigation of greenhouse gas emissions and support sustainable development”, referred to by many as “sustainable development mechanism”. In contrast to the cooperative approaches, this mechanism will be supervised by a body mandated by the Parties to the Paris Agreement. In addition, the Parties are to adopt rules, modalities and procedures which must be observed when implementing activities under Article 6.4.
- Third, Art. 6.8 and 6.9 provides for the use of non-market approaches. Just how these approaches are to work will be determined in the coming years with the development of a “framework for non-market approaches”.

All three approaches need to adhere to the cross-cutting principles established in Art. 6.1:

- Participation is voluntary for countries.
- Use of the cooperation mechanisms is to allow for raising climate action ambition, thus increasing the effort in terms of climate change mitigation or adaptation. This goes beyond the “zero-sum game” of the Kyoto Protocol, where emission reductions achieved under the flexible mechanisms were used one-for-one to offset emissions in the buyer country.
- The mechanisms are to promote sustainable development.
- The mechanisms shall ensure environmental integrity, meaning that all emissions and reductions will be properly accounted for.

The task of developing the guidance for cooperative approaches, the rules, modalities and procedures for the new mechanism, and the framework for non-market approaches has been mandated to the UNFCCC’s Subsidiary Body for Scientific and Technological Advice (SBSTA). After a first round of discussions at its session in May 2016, the SBSTA invited Parties and observes to submit views by 30 September.

This paper summarises the submissions to identify points of controversy and convergence.<sup>1</sup>

<sup>1</sup> The submissions are available on the UNFCCC submissions portal at

<http://www4.unfccc.int/submissions/SitePages/sessions.aspx?showOnlyCurrentCalls=1&populateData=1&expectedsubmissionfrom=Parties&focalBodies=COP,referenceFCCC/SBSTA/2016/2,para.96,FCCC/SBSTA/2016/2,para.100andFCCC/SBSTA/2016/2,para.104>



## 2 Cooperative Approaches

### 2.1 Overview

Art. 6.2 specifies that Parties engaging in cooperative approaches shall promote sustainable development, ensure environmental integrity and transparency, including in governance, and apply robust accounting, inter alia, to avoid double counting. In addition, Art. 6.1 mandates all approaches under Art. 6 to serve to increase ambition.

At SBSTA 44, Parties discussed a number of issues, including

- The nature of internationally transferred mitigation outcomes (ITMOs),
- The implications of different forms and types of NDCs,
- How the guidance would be applied, including point of application (generation, transfer and use of ITMOs),
- Governance,
- Accounting.<sup>2</sup>

On basis of the mandate in the Paris Agreement and the SBSTA discussions, the discussion of the submissions is structured as follows:

- The Nature of ITMOs and the scope of cooperative approaches, including increasing ambition;
- The scope of the guidance and governance to ensure environmental integrity;
- Accounting;
- Sustainable Development.

---

<sup>2</sup> SBSTA 44 Item 11 a – Guidance on Cooperative Approaches referred to in Article 6, paragraph 2, of the Paris Agreement, Co-facilitators' note, Version of 21 May 2016 at 08:00.

### 2.2 Nature of ITMOs

The submission by **AILAC** posits that ITMOs should be expressed in **tonnes of CO<sub>2</sub> equivalent** (tCO<sub>2</sub>e). Similarly, **Ethiopia** maintains that ITMOs need be **GHG emissions reduction units** as NDCs are themselves expected to be GHG reduction contributions.

To focus on reductions is emphasised by **Brazil**, who posit that “**only surpluses** that result in **enhanced ambition** should be contemplated under Article 6.2 (...) the amount of units eligible for trading should be limited to the difference between current emissions and the average of the last three inventories”. In practice, this would mean that only countries that are reducing their emissions in absolute terms would be eligible to participate under Art. 6.2. In addition, Brazil envisages ITMOs to also include certified emission reductions under Art. 6.4 and CERs from the CDM. Thus, Art. 6.2 as such would only be open to countries with absolute emission reductions while other countries would be limited to using Art. 6.4 and the CDM.

Along similar lines, **New Zealand** posits that Art. 6.2 is about the **net outcome** of Party-to-Party cooperation. While cooperation may occur via linked emissions trading schemes, the purchase or trading of offsets, reductions transferred through the Article 6.4 mechanism, or government to government agreements to deliver emissions reductions, in their view what matters to the Paris Agreement is the net outcome, not the individual transactions between businesses. Thus, in their view ETS units used in national or sub-national schemes are not ITMOs.

By contrast, **Norway** holds that ITMO is a **generic term that may include different types of units**, including units from emission trading schemes and certified emission reductions. Regarding ambition, Norway assumes that the possibility to cooperate in implementing NDCs has made it possible for countries to assume **more ambitious** targets than if they were limited to mitigation within their own borders.

The **OECD Climate Change Expert Group (CCXG)** notes that a mitigation outcome could in theory be expressed in terms of **GHG levels** or in terms of **non-GHG indicators** (e.g. renewable energy capacity), which some NDCs focus on. However, CCXG also notes that none of the Parties with non-GHG NDCs have so far indicated an intention to trade with other Parties directly in terms of these non-GHG outcomes.

Similar to Norway, they further elaborate that ITMOs expressed in terms of GHGs could potentially include:

- Direct trade between NDC targets at government-to-government level;
- Units from domestically-governed mechanisms, including ETS allowance transfers between internationally linked systems as well as units issued from baseline and cred- it systems and used internationally;
- Units from the new Article 6.4 mechanism;
- Units from existing UNFCCC mechanisms such as the CDM and JI.

## 2.3 Scope of Cooperative Approaches

Partly connected to the question of the nature of ITMOs, there is some controversy as to the scope of cooperative approaches. At one end of the spectrum, for example **Brazil** holds that Art. 6.2 “is analogous to emissions trading under Article 17 of the Kyoto Protocol” and should thus

provide for international **transfers of mitigation surpluses** for the achievement of NDCs. In their view Art. 6.2 is not to cover domestic, sub-national or regional emissions trading schemes, which they suggest are only relevant as domestic policies to be reported in national communications. Brazil also differentiates Art. 6.2 from Art. 6.4, where the latter involves mitigation activities on the ground, whereas the former does not. As noted above, **New Zealand** similarly holds that Art. 6.2 is about the **net outcome** of Party-to-Party cooperation. While cooperation may take various forms, what matters to the Paris Agreement is the net outcome, not the individual transactions.

By contrast, **AILAC** posits that “cooperative approaches include **any approach** that involves two or more Parties (or subnational units thereof, with the appropriate national authorization) and seeks to internationally transfer mitigation outcomes to be counted towards NDC goals”. **Australia** similarly calls for **accommodating both existing cooperative approaches and ones that are still to be developed, within and outside the UNFCCC**, giving as examples the new Art. 6.4 mechanism, the World Bank Transformative Carbon Asset Facility, and national and sub-national linking arrangements. The **LMDCs** also support an open approach, allowing Parties to **explore ITMO possibilities**.

The **EIG** posits that economic instruments will allow Parties to be **more ambitious** in their NDCs by making use of lower marginal abatement costs and/or foreign direct investment. They suggest that Art. 6.2 may cover national and linked **emission trading systems as well as “bottom-up approaches”** elaborated by individual countries (whereas Art. 6.4 represents a multilaterally elaborated approach).

The Centre for Clean Air Policy (**CCAP**) suggests that ITMOs should include the following characteristics: **support NDC implementation** in both source and user country, support **ambition**, and seek **synergies** with other forms of coop-

eration as appropriate. In their view, a whole range of transfer arrangements could be enabled, including:

- Carbon market mechanisms;
- Bilateral/plurilateral arrangements by Parties that do not involve the transfer of tradable securities but still transfer a verified reduction;
- Publicly funded reductions;
- Transfer of recognition of parties providing support while the reductions are accounted for only in the host country inventory;
- Transfer of non-greenhouse gas based outcomes, such as energy from renewable sources, acres of reforestation / afforestation, etc.

CCAP cautions that there is a high risk that an ITMO generated within an NDC and used to meet an existing NDC of a buyer country would not result in additional **ambition** and would result in double counting. In contrast, an ITMO that is generated and used going beyond the existing ambitions of seller and buyer country NDCs would be certain to lead to an increase in aggregate ambition. CCAP notes that this recalls the supplementarity principle of the Kyoto Protocol, but now considered from both ends of the transfer.

**IETA** posits that **linking carbon pricing systems can help reduce mitigation costs** and thus create the economic conditions for **increasing ambition** in the future. In their view, Art. 6.2 would be the vehicle for such linkages, whereas Art. 6.4 would apply to countries that are currently not in a position to establish a carbon pricing system but need the climate finance that the mechanism can bring. Art. 6 could in their view also be a catalyst for establishing carbon pricing systems in such countries. In this way, Art. 6 has the potential to involve all countries and to target whole sectors,

rather than only individual projects, as under the CDM and JI.

**Carbon Market Watch** maintains that “all rules, oversight and guidance (...) must follow the **leitmotif of higher ambition**”. In their view, **offsetting** only displaces where emissions occur but **does not lead to higher ambition**. Therefore, **only emission trading** should be allowed, as it can lead to a robust carbon price in countries trading under an absolute cap. Emission trading should therefore in their view be allowed **between Parties with ambitious NDCs**.

## 2.4 Scope of the Guidance and Governance to Ensure Environmental Integrity

On governance, there is a split on the question to what extent rule setting and enforcement should be done centrally, or be left to individual countries.

**Australia** envisages environmental integrity **criteria to be set at the national level**.

**Brazil** “strongly believes” that environmental integrity can only be ensured if **rules and governance structures** are **multilaterally-agreed** and accountable to all Parties to the Paris Agreement. Similarly, the **EIG** posits that, based on the experience from the CDM and JI, **oversight by the host country alone is not sufficient** to ensure environmental integrity.

By contrast, **Canada** proposes to “provide a degree of **flexibility**” and supports “**bottom-up**” **approaches**, where Parties would demonstrate environmental integrity. In their view, Parties should be free to use their preferred approaches and bilateral (including sub-national) as well as multilateral trading should be eligible. “Bottom-up” approaches could in their view best be tailored to the unique circumstances of the re-

gions involved – such as the Quebec/California cap-and-trade system.

**Ethiopia** similarly posits that the **governance** of implementation should be **led by the parties** involved.

**Japan** also maintains that it is the “prerogative of Parties involved to generate, transfer and use ITMOs.” Thus, **implementation** and governance should be carried out under the **responsibility of the Parties involved**, with guidance providing “possible measures” to take.

The **LMDCs** also emphasise that the **guidance** should be of a **facilitative** nature, respecting the prerogatives of national authorities and allowing Parties the opportunity to effectively explore ITMO possibilities.

**Mali, for the African Group of Negotiators (AGN)**, submits that a **supervisory board** will be needed to govern the use of ITMOs under the cooperative approaches and ensure their eligibility, based on the guidance.

**New Zealand** also supports a **decentralised** approach. They suggests that at a minimum Parties should **report on** how they are ensuring **environmental integrity** and be open to expert reviews. Parties should also have the option to apply higher standards if they so wish.

Among the observers, **Carbon Market Watch** holds that maintaining environmental integrity and transparency requires **international oversight and governance**. Therefore, issuance, transfers, and use of ITMOs should in their view be reported to and tracked by a central UN-FCCC body.

By contrast, **IETA** suggests that while the guidelines will be agreed by internationally, **each Party will decide** how it comports with the guidelines.

## 2.5 Accounting

### 2.5.1 General Mitigation Accounting

Various Parties including **Australia, the EU, Mali, for the African Group of Negotiators, New Zealand, and Norway** note that accounting for Art. 6.2 needs to be seen in the context of the work on **broader accounting under Article 4.13**, and on **broader transparency under Article 13**. The EU suggests that arrangements under Art. 6.2 are additional to those under Art. 4.13 and applicable only where Parties participate in transfers. New Zealand similarly suggests to operationalize the accounting guidance as a “**module**” of the broader accounting provisions to be developed under Article 4.13, **to be used by Parties engaging in cooperative approaches**.

**Ethiopia** suggests a **list of items** that should be included in the guidance, including on

- establishing baselines at policy, project, program, sectoral as well as national level,
- converting target years and targets to a globally common denominator and frequency,
- ensuring environmental integrity (domestic and global),
- governance model and transparency in governance of the mechanism,
- accreditation standards for MRV bodies.

The **EU** notes that the guidance will need to address to different situations, e.g. whether reductions are from within or outside the scope of a Party’s NDCs.

**Norway** holds that the guidance should also provide **clarity on contributions through markets and finance mechanisms** respectively.

**IGES** suggests that the accounting guidance should **accommodate Parties with different levels of capacity**. In their view, a registry system provided by one country, as Japan is doing

for its JCM, can be recommended for use by countries with low capacity.

**CCXG** goes into substantial detail on accounting. They note that accounting **starts with the inventory emissions** within the scope of the NDC, **then adding/subtracting tCO<sub>2</sub>-eq** based on **ITMO** activity to give an ITMO-adjusted emissions level.

Counting ITMO activity could be done in two ways: **counting issuances and retirements** of all units that can be used internationally, **or counting only net transfers** of units across NDC boundaries, which includes international transfers and banking.

**Timing** of accounting could also be done in two ways, either **only after the end of the NDC target year/period, or on an ongoing basis** as part of the biennial transparency framework, presenting a time series of both inventory and ITMO-adjusted emissions.

They note that accounting only for the retirement of units would cause complications if banking is possible. Not accounting for issuances could give a wrong picture of the host Party's NDC achievement in the period where the units were generated while impacting the following period when the units are used.

## 2.5.2 Nature of NDCs

At SBSTA 44, Parties identified the need to analyse the implications of the different forms and types of NDCs. Some Parties suggested that these differences may affect the creation and accounting of ITMOs. Some Parties posited that quantification of NDCs would be required to participate in Art. 6.2.<sup>3</sup>

In the submissions, **Brazil** maintains that **Parties** wishing to use Article 6.2 **"should be required to establish and quantify a budget of**

**emission allowances or an annual trajectory of emissions** towards their NDC objectives, so that a mitigation surplus may be translated into mitigation outcomes that may be eligible for trading".

**Ethiopia** maintains that **ITMOs need to be GHG emissions reduction units** as NDCs are themselves expected to be GHG reductions.

Along similar lines, the **Ukraine** posits that one of problems of the Kyoto mechanisms was a lack of simple and clear determination of measuring and legal meaning of mitigation outcomes. They therefore suggest to define that "any and all outcomes" from activities under Art. 6.2 and 6.4 "shall be quantifiable and measurable in **Metric Tons of CO<sub>2</sub> equivalent**." In addition, they "shall be considered as [environmental] services [to ecosystems]."

**New Zealand** similarly holds that ITMOs should be in **tonnes of emissions** reductions or tonnes of removals by sinks. In their view, cooperation is most suitable where Parties have comparable NDC types, for example quantified budgets. At the same time, they suggest to further **explore how reconciliation might occur between Parties with different NDC types**.

**AILAC, Australia and Norway** consider that **guidance** should be developed **for all the different types of NDCs**. At the same time, Norway also mentions that participation Art. 6.2 "will often require quantification of the NDC and timely submission of inventories."

**Mali**, for the **African Group of Negotiators**, posits that there should be **no restrictions** based on the type of NDCs, but at the same time maintains that ITMOs need to be **quantifiable**.

**Russia** suggests that to ensure proper accounting, the **receiving Party and the investor Party** should have the **same type of NDCs**.

**Carbon Market Watch** cautions that international transfers pose accounting risks, therefore

<sup>3</sup> Supra, footnote 2.



a **precautionary approach** should be pursued. In their view, **eligibility** for transfers should therefore be **limited to NDCs expressed as “absolute multi-year emission budgets** using common metrics (inventory methodologies and GWPs) that cover their economy wide emissions after 2020.”

CCXG notes that it will be necessary **to decide how important it is to account with a high degree of precision**, “i.e. to the last tonne”, or whether it is sufficient to provide a less precise but representative picture of ITMO use. They opine that requiring high precision could limit participation to Parties with certain NDC types while requiring less precision could allow participation by a broader range of countries.

CCXG notes that **single-year targets may not be representative** of a country’s emission profile. They suggest that this problem could be **overcome by using average values over longer time series**. They also note that even if Art. 6.2 were limited to Parties with multi-year budgets, transfers from single-year targets would still arise under Art. 6.4. It will therefore still be necessary to develop accounting guidance for this situation.

CCXG also discusses the problems caused by **BAU and intensity targets**. They suggest that **ex-post accounting is not difficult** for such NDCs. Instead, the **question is how much ex-ante confidence is needed** for accounting to be considered robust. Furthermore, lack of ex-ante clarity on the NDC achievement may lead to overselling.

They discuss whether a **distinction could be made between transfers made on the basis of a mechanism such as an ETS and government selling**. If transfers takes place via a mechanisms, it is the parameters of this mechanism rather than the NDC that are important. For robust accounting, the mechanism would need:

- Its own accounting to be robust (avoid double issuance, double selling, etc.);
- To operate in a continuous manner (avoiding “one-off” actions in the NDC target year);
- To have good MRV/compliance provisions, so that there is confidence caps and base-lines are respected.

However, they caution that mechanisms could be established as a vehicle to sell “excess” emission units.

Finally, they note that there are **many advantages to a centralised system of registries**. In peer-to-peer systems, security is only as good as the “weakest link” and transparency would be lower. If some Parties do not want a centralised system, the accounting guidance will need to specify the information that needs to be reported from these registries as well as information on the registry system itself to ensure its robustness.

### 2.5.3 Double Counting, Corresponding Adjustment

The COP decision adopting the Paris Agreement in para 36 specifies that the guidance for cooperative approaches needs to include guidance “to ensure that double counting is avoided on the basis of a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks covered by their nationally determined contributions under the Agreement”.

The **EU** submission maps out the ground to be covered by **raising a number of questions** on the corresponding adjustment, including:

- ‘What’ is adjusted, emissions or contributions, and using what process and institutions?
- Must adjustments be in respect of either an emission reduction or a removal? The same year or given period?

- ‘How’ will ‘corresponding adjustment’ be done?
- Will there be a centralised record of reference levels and adjustments?
- Will there be a log or registry of transactions to facilitate adjustments?”
- ‘When’ will corresponding adjustment be done and how will it relate to the overall accounting and compliance process?
- Will the approach differ according to the type of mitigation action? If so how?

**Brazil** contends that double counting should be addressed through establishing an instrument analogous to the Kyoto Protocol’s **International Transaction Log (ITL)**, including procedures to ensure that transactions are authorized by both participating Parties.

The EIG suggests that avoiding double counting requires arrangements at least in three areas: **accounting of units, design of mechanisms that issue units, and consistent tracking and reporting on units.**

**Ethiopia** posits that **quantification of NDCs** in terms of GHG reductions is **required** to implement corresponding adjustment.

**Japan** suggests that the accounting guidance should request **disclosure of information on the amount of units** which are issued, acquired and transferred, retired and cancelled by the Parties engaging in the cooperative approaches. This information should be made publicly available in a consolidated manner by the UNFCCC secretariat.

Japan also discusses details on double registration, double issuance, double usage and double claiming.

To avoid **double registration and double issuance**, the participating Parties should in their view be required to **check** whether a **project** has already been registered under other schemes. Information to be made publicly avail-

able regarding registered projects under each scheme should therefore be harmonised.

**Double usage** should be prevented by reducing the amount of units in the transferring Party’s registry and increasing the amount of units in the acquiring Party’s registry accordingly. Furthermore, the transferring Party would need to check whether those units have already been used before.

**Double claiming** would be avoided by having the acquiring Party subtract the amount of the units from its own emissions to be assessed in terms of the achievement of its NDC, while the originating Party would add the amount of units to its own emissions.

**New Zealand** posits that the numbers in inventories and in NDCs are key. While inventories themselves should not be adjusted and instead always reflect actual emissions and removals data, Parties could **report on their NDC with additions or subtractions to account for transfers**. These numbers should then be able to be reconciled across Parties. The numbers could in their view most usefully be reported in a tabular format.

**CCXG** notes that while **double claiming** is **to be avoided at the level of the individual Parties, double issuance and double selling** will need **to be addressed at the level of individual mechanisms**, by sound registry standards and governance procedures.

They note that preventing double claiming requires regular, robust GHG inventories using a common IPCC methodology and annual information on ITMO activity.

They also note that the **limited coverage and lack of granularity in national inventories** will pose problems: if an emission is not reflected in the national inventory because of lack of granularity or exclusions, there is no double-counting, even without corresponding adjustment.

### 2.5.4 Sustainable Development

As has historically been the case in the CDM, the discussion on sustainable development revolves around the question of whether there should be **international provisions** on the promotion of sustainable development, **or** whether these should be **left to the host countries**. Several submissions do not discuss sustainable development at all, despite the mandate in the Paris Agreement that cooperative approaches should promote sustainable development.

The **EIG** posits that activities under Art. 6.2 and 6.4 should be **consistent with the Sustainable Development Goals, the sustainable development objectives and strategies of the Parties involved and with human rights**. Therefore, in their view **“a sufficient level of host country approval process”** is required. They also posit that the host party should confirm conformity with sustainable development, including human rights. They also consider that the guiding principles on environmental integrity should **also address potential conflicts with other environmental aspects, such as biodiversity**.

By contrast, **Ethiopia** maintains that ensuring domestic environmental integrity and **domestic sustainable development is a domestic prerogative** subject to domestic regulations. They suggest that host countries need be tasked with defining their domestic sustainable development benchmarks, but **“preferably along globally tested best practices.”**

**Mali, for the AGN**, maintains that sustainable development criteria **“are a sovereign prerogative of countries”** and must therefore be defined at national level. Similarly, progress must in their view be monitored and judged at a national level through a national authority. However, they also suggest that **progress** should be **reported at the international level** and that a **tool** to help Parties to assess the sustainable

development impacts of ITMOs **would be welcome**.

**Australia** envisages sustainable development **criteria to be set at the national level**, as in the CDM.

The submission by the **LMDCs** is somewhat inconsistent. On the one hand they note that **sustainable development is treated at the same level as mitigation in Art. 6**. Therefore, sustainable development **“should be integral to all rules, modalities and procedures (...) otherwise the mandate of the Article would be undermined.”** They therefore call for establishing **“concrete measures and controls to ensure that ITMOs serve environmental incentives (...) while prohibiting perverse incentives, such as market speculation and excessive offsetting”,** as well as negative impacts, such as spillovers and externalities. On the other hand, they hold that the sustainable development mandate of Art. 6 **can only be addressed in a bottom-up manner**, as sustainable development means different things to different countries according to their national circumstances and stages of development.

**New Zealand** suggests that Parties could **report** on their engagement in cooperative approaches and how this **promotes sustainable development**. This information would probably be qualitative and quantitative. They opine that **“it may not be productive”** for the guidance to be prescriptive about the exact content or form of this reporting as **indicators** for sustainable development are **likely to be dependent upon national circumstances**. They note that as in other provisions under Art. 6, it **may be necessary for all Parties engaging in cooperative approaches to demonstrate adherence**.

**Norway** suggests that **voluntary tools** for reporting could be explored, as have been used under the CDM. Furthermore, lessons could be learned from the way safeguards have been dealt with in decisions related to REDD+. Access to information, transparency regarding the co-

operative activities and stakeholder consultations are further elements where they see relevant experience to build on.

# 3 The “Sustainable Development Mechanism”

## 3.1 Overview

The “sustainable development mechanism” seems familiar as its principles established in the Paris Agreement strongly resemble the CDM. Most submissions therefore focus on issues of implementation.

Based on the submissions, the discussion of issues is organised as follows:

- Scope of the mechanism;
- Ambition;
- Institutional Arrangements;
- Methodologies and accounting;
- Sustainable development;
- CDM transition issues.

## 3.2 Scope of the Mechanism

As noted by the **EU**, in contrast to the Kyoto Protocol the Paris Agreement does not specify that the mechanism is about “projects”, raising the **question of the level of aggregation of activities** (projects, programmes and/or sectors).

**AILAC** posits that the **scope** of eligible activities should be “**inclusive**”, given the nationally determined nature of Parties’ contributions. However, they also note the need for robust methodologies as a prerequisite.

**Australia and Mali, for the AGN**, also call for covering a **broad range of activities, project-based, programmes, sectoral, and others**.

**New Zealand** sees the mechanism as a sub-category of Art. 6.2, as one way in which mitigation outcomes may be generated and transferred. In their view **projects, programmes of activities and sectoral approaches** should all be eligible under the mechanism.

**Norway** similarly argues that the mechanism should cover a **variety of scopes**, and allow for coverage of scopes to develop over time. They envisage project-based and other forms of co-operation similar to those developed under the CDM and JI, as well as cooperation covering broader segments or sectors of the economy, possibly including REDD+. In their view, the mechanism should aim to facilitate transformation towards low emissions societies, and facilitate a movement from project-based to broader approaches over time.

By contrast, **Brazil** sees the mechanism as operating at the **project level** and maintains that “specific scopes of activities” in paragraph 37(c) of the Paris decision refers to types of methodologies. In their view, such methodologies should be the same as in the CDM: large scale, small scale, afforestation and reforestation, and carbon capture and storage activities. They suggest that the new mechanism shall adopt all methodologies developed under the CDM *mutatis mutandis*.

The **LMDCs** advocate for defining the scope of activities in a manner to facilitate **access of small and medium projects** and initiatives.

**Mali, for the AGN**, suggests that **activities are to be implemented in developing countries** while **funding** could come **from any source**, in particular developed countries.



There also is some controversy on whether **REDD+** could be included in the new mechanism. The Republic of the Congo, for the **Congo basin countries** (Burundi, Cameroon, Central African Republic, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Sao Tomé et Príncipe, Rwanda and Chad) call for including the conservation of tropical forestry ecosystems under the mechanism. **Ethiopia** similarly states that activities stated under Art. 5 of the Paris Agreement could be included.

By contrast, **Brazil strongly rejects the inclusion of REDD+** activities, arguing that attempts to link Articles 5 and 6 were equivalent to reopening the discussion on the scale of REDD+ activities, which in their view has been settled by decisions agreed under the Convention rejecting the project scale for REDD+.

### 3.3 Ambition

At SBSTA 44, some Parties posited that the mere availability of the mechanism to assist in the achievement of NDCs will lead to overall mitigation. Others held that specific provisions would be needed to ensure that overall mitigation is achieved.<sup>4</sup>

In its submission, **Brazil** suggests that activities under the mechanism should **go beyond policies and measures** currently envisioned by the host Party **if the emission reductions are to be used towards another country's NDC**. However, this requirement would not apply if the reductions are to help achieve the host country's own NDCs.

Brazil argues that a key difference to the CDM is the aim "to incentivize and facilitate participation (...) by public and private entities" – while

the demand for CERs under the CDM was originally driven by Annex I Parties, in their view the reductions from the new mechanism could be used by any actor for any purpose. It could thus become **a tool for voluntary initiatives** going beyond government action.

**Ethiopia** suggests that ensuring "overall mitigation" and "long term benefits" will need to take place at several levels. **First**, at the **plant level**, the CDM's approach of comparing a project only to what would otherwise have been done by the same project participant falls short in their view. The new plant may still emit more than its peers in the host country, therefore, new plants should **need to perform below the sectoral benchmark**. **Second**, at the **national level, reductions** can only be transferred if they are **in excess of the NDC**, unless the NDC is explicitly conditional on international finance.

**Japan** suggests that to deliver "overall mitigation in global emissions", the approaches taken under the mechanism on **monitoring, reporting and verification** should be **different from** the ones under the **CDM**. However, they do not go into details on what those differences should be.

**Mali, for the AGN**, maintains that the mechanism should be used to increase ambition and must be **supplemental to Parties' own efforts**, particularly for developed countries. In their view, developed countries must primarily meet their NDCs through domestic efforts.

**New Zealand** holds that "overall mitigation" is to be delivered through use of **conservative baselines** and reference levels guaranteeing that reductions go beyond business as usual.

The Republic of the Congo, for the **Congo basin countries**, argues that the success of the mechanism will depend on the guarantee of a **minimum carbon price**.

**Carbon Market Watch** devotes the most space to the issue of ambition. They argue that markets in and of themselves do not increase ambi-

<sup>4</sup> SBSTA 44 Item 11 b – Rules, Modalities and Procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement, Co-facilitators' note, Version of 21 May 2016 at 08:00.

tion beyond the overall cap set. To the contrary, lowering the domestic carbon price through importing cheaper units may in their view lead to investment decisions leading to lock-in of high emitting infrastructure.

They argue that three elements are key to increase ambition beyond current national contributions: **producing a net atmospheric benefit, promoting a paradigm shift, and limiting perverse incentives for unambitious NDCs.**

Regarding net atmospheric benefits, they argue that either reductions should be discounted, or the mechanism should be used for results-based finance to purchase units and cancel them.

Regarding shifting paradigms, they argue that the mechanism cannot be used for investments that would lead to a fossil fuel lock-in or unsustainable growth. In their view, **fossil fuels** should therefore be **excluded** from the scope of the mechanism. Furthermore, activities should not cause perverse incentives such as improving the profitability of high-emitting activities or by creating a disincentive for governments to strengthen national policies. In their view, **crediting** should therefore be **limited to least developed countries and small island developing states, with use of ambitious standardized baselines.**

Finally, they argue that a paradigm shift means moving towards **programmatic interventions on the economy-wide or sector-wide scale** that fundamentally transform behaviour patterns, sectors, markets, and investment patterns.

### 3.4 Institutional Arrangements

**AILAC** supports **bringing in useful elements from the Kyoto mechanisms**, including the role of **Designated National Authorities** and creation of a **centralised registry of actions**

**and transfers.** However, they caution that operation of the new mechanism should be **faster** than the Kyoto mechanisms.

**Australia** calls for effective, independent and transparent governance arrangements. In their view, the **governance** arrangements should operate **independently of other mechanisms** and include a **governing board** that is independent, transparent and engages appropriately with relevant stakeholders.

**Brazil** “strongly believes” that environmental integrity can only be ensured by establishing **multilateral rules and governance structures.** In their view, the governing body should be similar to the CDM Executive Board. They propose that the **Board of the new mechanism could succeed to the CDM Board “in virtually all aspects**, including but not limited to its rules of procedure, code of conduct and guidelines for panels/working groups”.

Similarly, the **modalities and procedures for the CDM and decisions by the CDM Board** should in their view **be incorporated** into the new mechanism. Similar to the CDM, activities under the new mechanism should be subject to national approval, validation by designated operational entities, registration by the Board, monitoring by the developer, and verification by designated operational entities. At the end of the cycle, the Executive Board should maintain a registry of the certified emission reductions that have been issued, which would then be transferred through an instrument analogous to the Kyoto Protocol’s International Transaction Log (ITL) to the national registry of either the host Party or the acquiring Party.

The **EIG** posits that based on the experience of the CDM and JI, one may conclude that **oversight by the host country alone is not sufficient** to ensure environmental integrity. Therefore, in their view:

- There should be project cycle procedures which ensure full transparency and make all documentation publicly available.
- Only internationally accepted methodologies should be eligible for use.
- Auditors should be fully accountable for all their activities to the authority regulating the mechanism.
- A notification to the regulator prior than the project start date should be required and retroactive crediting should not be allowed.

At the same time, the EIG calls for assuring efficient timeframes for approvals and for avoiding high verification costs.

**Ethiopia** argues that the rules for the new mechanism should be **substantially different from the CDM**. Ethiopia sees a need for clear rules on the roles of the **governing body and supporting bodies**, including on how to prevent the support structure from taking control of the governing body. They also call for rules to ensure equal representation of individuals from all regions and cultural backgrounds in each governing, technical support and routine operational body.

Furthermore, they see the **role of DOEs as very different**. The scale and nature of activities and the diversity of NDCs will require careful consideration of the forms of verification that is necessary under the new the mechanism. They also call for inclusive accreditation requirements recognizing the need for DOEs with regional and cultural diversity.

Finally, they call for establishing a process of **annual monitoring and evaluation** of the of the regulatory body, processes and outcomes, to be undertaken by an external independent body commissioned by the CMA. In their view, the current annual reporting to the CMP does not match expectations of transparency.

The **LMDCs** similarly call for establishing a **regular process for reviewing the outcomes** of the mechanism.

Furthermore, the **LMDCs** call for ensuring that the participation by **private entities** is **only a complement** to the Party's own efforts, possibly by establishing a threshold for the complementary participation of private entities.

**Mali, for the AGN**, maintains that the mechanism should be operationalized **drawing on key institutions and structures of the CDM**. In particular, they call for extending the role of the current CDM **DNAs** to ensure consistency in reporting with NDCs.

As noted above, **New Zealand** views the mechanism as a sub-category of Art. 6.2. Therefore, in their view the **requirements** for the promotion of sustainable development, ensuring environmental integrity and transparency including in governance, and the application of robust accounting and corresponding adjustments are **to be addressed under the provisions of Article 6.2**.

**Norway** suggests that the **roles of host parties, the governing body and the private sector could be different from the CDM** as the setting under the Paris Agreement is different from the Kyoto Protocol. They propose that relevant lessons could be drawn from schemes involving results-based payments, such as NAMAs and REDD+.

**Carbon Market Watch** emphasises the need for **impartiality in the governing body**. In their view, Board members should be free, independent, and not associated with Parties' negotiating delegations. In addition, civil society should have the opportunity to nominate Board members, all meetings should be open to the public, and all documentation on crediting activities of the mechanism should be publicly accessible.

## 3.5 Methodologies and Accounting

### 3.5.1 Methodologies on Additionality and Baselines

The submissions devote much space to the question of **how additionality and baseline setting will work in the new context of NDCs**.

**AILAC** notes that the concept of **additionality** will need to be **adapted to the diversity of NDCs** and should be simplified.

The **EU** similarly notes that the application of additionality will need to **consider the presence of NDCs and national policies**. Also generally, there are questions on how to operate depending on whether the NDC is quantified or not, whether the mechanism operates within or outside the scope of the NDC, whether the NDC is conditional or not. A further question is whether Parties will need to identify beforehand whether or how a class of activities contributes towards their NDC before crediting is possible.

The EU furthermore wonders how **sharing emission reductions among Parties** could work. The EU suggests to discuss reflecting NDCs and their implementation in baselines and retaining / not generating emission reductions for a part of the reductions achieved.

**Ethiopia** argues that **baselines** will need to be **set at the national level** to account for the NDCs. Sub-national baselines, as are possible in the CDM, are in their opinion not compatible with the nation-wide nature of contributions. Furthermore, most baseline methodologies were submitted by few constituencies. New rules should be established for the **top-down development and revision of methodologies** to allow use by all that wish to use them.

Rules on additionality would also need to be different to account for past deficits, such as projects being able to operate at much lower

carbon prices than was used in their demonstration of additionality.

**Mali, for the AGN**, maintains that the mechanism should draw on relevant reforms of the CDM, in particular **PoAs, standardized baselines, and automatic additionality of micro-scale** activities.

**Tunisia** calls for **building on existing** institutions, methodologies and procedures established under the Kyoto Protocol. **Complicated projects**, such as in the building and transport sectors, should in their view benefit from **simplified procedures**.

**Carbon Market Watch** calls for facilitating robust accounting by encouraging Parties to move towards a **standardized NDC format based on multi-annual emission budgets for economy-wide emissions**. Furthermore, they note that while the Paris outcome on the new mechanism has no language on **double counting as Art. 6.2**, the same approach should nonetheless be taken. They furthermore suggest that **oversight** for the issuance, transfer and use of units should be **mandated to the mechanism established by Art. 15** on implementation and compliance.

**Eligible activity scopes** should in their view be **limited** to project types that have a **high likelihood of being additional**, for example by introducing a negative list to exclude technology types with low likelihood of additionality and regularly reviewing the list to account for technological progress.

Furthermore, they call for setting **limits on crediting periods**, defined **per project type** in the respective methodology. These limits should take into account the rate of innovation and change in the relevant sectors as well as relevant market and socio-economic developments.

### 3.5.2 Double Counting

Discussions on double counting mostly revolve around the **relationship of the relevant provisions relating to cooperative approaches and the new mechanism**.

**Brazil** is somewhat inconsistent on the question of double counting. On the one hand, they argue that the language on “guidance to ensure that double counting is avoided on the basis of a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks” is applicable only to Article 6.2, not to Article 6.4. Therefore, the issue of double counting should in their view **not be covered under Art. 6.4**. On the other hand, they posit that reductions must not be counted twice. If a unit is transferred to another Party, the host country will retain the mitigation benefits in its national inventory, but should not be able to account for them towards its own NDC.

**Japan** suggests that accounting to avoid double counting should be **consistent with the guidance on Art. 6.2**. Furthermore, **institutional arrangements for managing units** should in their opinion be **different from those for the CDM**, where only Annex I countries have national registries and the cost for operating and maintaining the international transaction log is borne only by Annex I countries.

## 3.6 Sustainable Development

As in the CDM, the discussion revolves around the question of whether there should be **international provisions** on the promotion of sustainable development, **or** whether these should be **left to the host countries**. Several submissions do not discuss sustainable development at all, despite the mandate in the Paris Agreement that the mechanism should promote sustainable development.

**Brazil** posits that sustainable development issues are a **national prerogative** and should therefore **not be subject to multilateral analysis** under the UNFCCC. Therefore, in their view, the new mechanism must not include “top down” sustainable development criteria. Instead, the promotion of sustainable development should be a “key factor” in the approval of projects by designated national authorities.

The **EIG** posits that **activities** under Art. 6.2 and 6.4 **should be consistent with the Sustainable Development Goals, the sustainable development objectives and strategies of the Parties involved and with human rights**. Therefore, in their view “a **sufficient level of host country approval process**” is required. They also posit that the host party should confirm conformity with sustainable development, including human rights. They also consider that the guiding principles on environmental integrity should **also address potential conflicts with other environmental aspects, such as biodiversity**.

As noted above, the submission by the **LMDCs** is somewhat inconsistent. On the one hand they call for establishing “concrete measures and controls to ensure that ITMOs serve environmental incentives” and to avoid negative impacts. On the other hand, they hold that the sustainable development mandate of Art. 6 can only be addressed in a bottom-up manner.

**Carbon Market Watch** posits that “the world has now found consensus on what sustainable development is” with the adoption of the universal Sustainable Development Goals (**SDGs**) in 2015. They suggest that these can serve **as a basis** to evaluate efforts under both the CDM and future instruments such as the Art. 6 mechanism. In their view, public and private entities should **monitor and report** on how they promote the SDG. Furthermore, Parties acquiring units should **favour mitigation activities that promote the SDGs**.



Moreover, they call for requiring to conduct **local stakeholder consultations** in a manner that protects the right to full and effective participation of affected peoples and communities. They also call for establishing an **institutional grievance process** as a means of recourse for project-affected people and communities.

**The Sabin Center for Climate Change Law at Columbia Law School** similarly calls for explicitly recognising, incorporating, and building upon human rights law and international labour standards. In detail, they suggest:

- Committing to a “no harm” approach;
- Requiring project proponents to disclose information about the project and accept input from affected communities and individuals at the earliest possible point in the planning process, and to sustain an ongoing dialogue with the public throughout project development and implementation;
- Requiring project proponents to avoid adverse effects wherever possible, and to implement measures to mitigate any adverse effects that cannot be avoided;
- Requiring community participation in the determination of proper mitigation measures;
- For projects with potentially adverse impacts on indigenous people, requiring project proponents to obtain the free, prior, and informed consent (FPIC) from those people;
- For projects that result in displacement of persons or communities, requiring the project proponent to offer resettlement opportunities, financial compensation, and other services as may be necessary to fully mitigate adverse effects.

### 3.7 Transition from the CDM

Some submissions discuss what should happen to the CDM when the Paris Agreement starts being implemented in 2020.

**Australia** posits that the **existing mechanisms** under the UNFCCC are **not fit for a scaled-up** post-2020 period, but **transitional arrangements** should support continued investment. Issues to consider include crediting periods that extend beyond 2020 and elements of the Kyoto mechanisms which could be adapted for the new mechanism.

**Mail, for the AGN**, calls for defining a **transition pathway for registered CDM PoAs** to the new mechanism to harness the potential for scale-up and build trust among stakeholders.

**Norway** notes that many CDM projects have a life span that may in principle go well beyond 2020. In their view, host Parties should **clarify** how emissions reductions from these activities are treated vis a vis their **NDCs**.

They also note that the Kyoto Protocol is not limited in time and that, in principle, the CDM could continue. In their view, it will be crucial to **keep the CDM operational until the true-up** of the second commitment period in 2023. However, the question is whether it is worthwhile to continue to operate the CDM afterwards.

**Tunisia** posits that CDM **CERs should continue to be issued after 2020**. More generally, in their view ensuring continuity and a smooth transition from the CDM to the new mechanism will be key.

**Ethiopia rejects a “blank check transition”** from CDM projects to the new mechanism. In their view, there would need to be a **process of “re-registration”** on the basis of the new mechanism’s rules. This would include re-assessing assumptions in the original additionality demonstration, disallowing sub-national

baselines and activities that have a higher emission intensity than the national benchmark. Finally, projects that have been carbon financed for a seven year crediting period "should never be allowed to issue further under the PA since whatever barrier existed prior would most likely already have been overcome."

## 4 Non-Market Approaches

In contrast to the submissions on the other two approaches under Art. 6, the submissions on non-market approaches are at a rather general level. They mostly revolve around defining non-market approaches and identifying possible ways forward for the discussion.

Adoption of the framework for non-market approaches was mainly pushed by the **LMDCs**. In their submission, they outline the **main purposes** of the framework as, among others:

- Assisting countries in implementing their NDCs in a holistic manner by facilitating access to finance, technology transfer, and capacity building for mitigation and adaptation;
- Contributing to map and register needs of countries and assisting them in matching them with means of implementation, as well as monitoring the support provided;
- Establishing an information-sharing process for non-market approaches at the national, regional and international levels;
- Supporting the development of tools for the implementation, measurement and monitoring of holistic and integrated approaches to address climate change in the context of sustainable development.

The institutional process or facilitative mechanism is to have regional balance, and meet in parallel with the Subsidiary Bodies.

**AILAC** defines non-market approaches as co-operative approaches involving two or more parties where **no transfer of ITMOs** occurs in the implementation of NDCs. They suggest to **limit the work programme to initiatives** that are **not developed anywhere else under the UNFCCC** and align to the principles and conceptual framework of Article 6. They suggest

that examples could be **development of NAMAs, reduction of black carbon and joint initiatives for the conservation of oceans and other ecosystems**.

In their view, results should be reported through the transparency framework so that emission reductions would be reflected in the biennial communications.

**Australia** defines non-market approaches as measures with an international dimension that produce abatement or other outcomes, but are **not the subject of market-based transactions**. They envisage the **framework** to promote mitigation and adaptation ambition by **creating higher awareness** of non-market activities in order to **assist potential linkages**, greater collaboration, and opportunities for leveraging investment.

In their view, the framework should be informed by **outlining non-market approaches** that Parties are already undertaking or may pursue, as well as by information that Parties communicate under other articles of the Paris Agreement, including Art. 13. Such information sharing would help interested Parties to better coordinate and identify opportunities for non-market activities.

The Caribbean Community (**CARICOM**) (Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, Saint Lucia, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago) also proposes some areas of work:

- Fossil fuel subsidy reform;
- Phase out of inefficient and polluting technology;

- Policy reform to create the enabling environment for increased deployment of renewable energy.

They suggest that the work programme under Article 6.8 might explore opportunities for progressing on these areas, regulatory approaches and initiatives undertaken or under consideration, cost savings anticipated or achieved, impacts on poverty eradication and sustainable development, synergistic measures undertaken to facilitate and support these transitions, barriers and challenges faced in implementing measures and supporting impacted populations and sectors, types of goals and milestones set, policy support needed and/or available from the international community, ways to engage the private sector, protection of vulnerable sectors and communities, lessons learned for policy replication, quantified benefits achieved or achievable.

They suggest that sharing of views and experience may **benefit Parties in the implementation of their NDCs** or design of future NDCs, as well as providing **input to the Green Climate Fund or to other initiatives** aiming to support transformative approaches.

The **EU** suggests that the **focus** of discussions should lie on **“how to enhance linkages and create synergies”** and **“how to facilitate the implementation and coordination of non-market approaches”**.

In their view, Parties should, first, **identify relevant** existing non-market **instruments**, second, identify **existing linkages**, synergies, coordination and implementation already occurring, third, identify **opportunities** for the enhancement of existing linkages, creation of synergies, coordination and implementation of non-market approaches, and, fourth, assess the results of the previous steps and draw conclusions.

**Ethiopia** defines non-market approaches as any cooperative approaches that include every-

thing that is not a market approach for climate action and **does not result in transferable units** across national boarder. They furthermore suggest that these approaches should target both adaptation and mitigation; be participatory for all national stakeholders; enhance sustainable development and poverty eradication; can entail cooperation on technology transfer, capacity building, finance, best practice; can provide enabling capacity to coordinate and harmonize various instruments; and enhance the provision of means of implementation to developing countries Parties.

**Mali, for the AGN**, similarly defines non-market approaches as **any effort**, action or activity that is **not reliant on trading**. They give examples such as non-credited NAMAs, feed-in tariffs, fossil fuels subsidies removal, and carbon taxes. In their view, the framework must **enhance linkages and synergies between existing mechanisms without duplication** (mitigation, adaptation, finance, technology development and transfer and capacity-building) and provide **funding** for developing countries' NDCs. They call for strongly considering the importance of **adaptation activities** with mitigation co-benefits and high sustainable development impacts. They also call for considering the **linkage between climate finance and the new mechanism under Art. 6.4**, and for establishing a **tracking and/or reporting mechanism**.

**New Zealand** notes that there is a “myriad of policies and measures” countries may take. In their view, the framework is about **synergy and coordination in non-market cooperation**. Similar to the EU, they suggest to **first list examples** of integrated, holistic and balanced non-market approaches. Secondly, one may consider how new and innovative approaches might be developed. They suggest that Parties should **submit worked examples** of how such cooperation might result in promoting ambition and participation in the implementation of

NDCs. They provide one example on **fossil fuel subsidy reform**.

**Norway** notes that the majority of climate-related cooperation has so far not involved transfer of units. They envisage continued **discussion on what sort of cooperation** would fall under Art. 6.8 and 6.9, and their **relations to other work streams** under the Convention and the Paris Agreement. They suggest that issues such as the **phasing out of harmful subsidies and urban planning** could also be discussed.

**Tunisia** posits that Art. 6.8 needs to serve as a **framework for all activities of international climate finance** that aim at a long-term mitigation effect, including capacity building, technology transfer, carbon pricing, energy efficiency labelling, consumer awareness raising, eliminating administrative barriers, and others.

The **Ukraine** posits that combating climate change requires an innovative holistic financial solution. They suggest that this solution lies in the introduction of a **new international currency exchange arrangement based on the balance of consumption of ecosystem services and production of services to ecosystems** – the Environmental Balance Index (EBI). They define “services to ecosystem” as the benefits ecosystems obtain from people, including services on the reduction of human activities’ impacts on ecosystems and activities related to recovery and protection of ecosystems. The balance of balance of consumption of ecosystem services on the one hand and production of services to ecosystems on the other hand serves as indicator of the sustainability of development.

The Ukraine suggests that the EBI could be applied at both the national and international levels. Nationally, calculated at the enterprise level, it could be used to determine taxation or as a basis for establishing an emissions trading systems. Internationally, it would serve as basis for determining the cross-currency exchange rates in foreign trade operations<sup>5</sup>, the New Exchange

Arrangement (Monetary System). The value of currencies would be based on the correlation of the EBI of one Party to the EBIs of other Parties.

The **Centre for International Sustainable Development Law (CISDL)** notes that the role that States can play in climate change mitigation is not limited to the regulation of private actors. In fact, states themselves are central economic actors. They posit that **state-owned enterprises** (SOEs) dominate sectors which are **critical to mitigation**, particularly in emerging economies. For instance, an estimated 80% of global oil reserves and 60% of natural gas reserves belong to SOEs, which generate 61% of global oil production and 52% of global gas production. State ownership in coal is limited in the OECD countries but amounts to 66% in developing countries. More than a fifth of current greenhouse gas emissions relate to fossil fuels produced by just twelve SOEs. Moreover, SOEs control half of the world’s electricity generation assets, and so far SOEs have usually been more engaged in fossil fuels rather than in renewable energies.

They note there are two main trends in state ownership policies towards climate change mitigation: leaving or leading. That is, divesting, or exercising their influence to develop a sustainable model of development.

They suggest that the framework for non-market approaches should further explore and raise awareness on the role that state ownership policies can play in climate change mitigation.

**IETA** posits that non-market based approaches should **meet the same Article 6 standards for emissions reduction accounting and tracking** as market-based approaches, as well as the same standards for environmental integrity. They should therefore make use of mitigation infrastructure provided by the UNFCCC or others, including monitoring and verification protocols for key sectors, standardized emission performance benchmarks, a registry and issu-



ance system to establish ownership of emission reduction units, a standardized reporting template, an accreditation system for independent verifiers, and a co-benefits checklist.

## 5 Summary and Conclusions

While the new mechanism under Art. 6.4-6.7 seems familiar as its principles strongly resemble the Kyoto Protocol's CDM, the other two approaches have so far not been clearly defined conceptually. Consequently, submissions on the new mechanism go into implementation details whereas submissions on the other two approaches mostly try to define what the two approaches are. The submissions reveal some sharp differences in opinions on how Art. 6 should work.

### What Are ITMOs?

As some submissions note, a mitigation outcome could in theory be expressed in terms of GHGs or in terms of non-GHG indicators (e.g. renewable energy capacity), which some NDCs focus on. However, CCXG also notes that none of the Parties with non-GHG NDCs have so far indicated an intention to trade with other Parties directly in terms of these non-GHG outcomes.

Among the Parties that express themselves on this issue, there so far is a clear preference to define ITMOs in tonnes of CO<sub>2</sub>-equivalent. However, there is a split on what cooperative approaches are. Some hold that the concept should include any kind of cooperation between two or more countries seeking to transfer mitigation outcomes, which could include:

- Direct trade between governments;
- Units from domestic mechanisms, including allowances from emission trading systems and units from baseline and credit systems;
- Units from the new Article 6.4 mechanism;

- Units from existing UNFCCC mechanisms such as the CDM and JI.

By contrast, others hold that Art. 6.2 should only provide for international transfers of mitigation surpluses for the achievement of NDCs. In their view Art. 6.2 is not to cover domestic, sub-national or regional emissions trading schemes.

### Raising Ambition

While the Paris Agreement mandates that Art. 6 should contribute to increasing climate ambition, most submissions on cooperative approaches do not discuss this issue in detail. Many simply assume that being able to cooperate will allow Parties to be more ambitious in their NDCs by making use of lower marginal abatement costs and/or foreign direct investment. By contrast, Brazil stipulates that only absolute emission reductions should be eligible to be transferred.

The US-based Centre for Clean Air Policy (CCAP) cautions that there is a high risk that an ITMO generated within an existing NDC of a seller country and used to meet an existing NDC of a buyer country would not result in additional ambition and could to the contrary result in double counting. In contrast, an ITMO that is generated and used going beyond the existing ambitions of seller and buyer country NDCs would be certain to lead to an increase in aggregate ambition.

### Promoting Sustainable Development

Similar to the question of ambition, while the Paris Agreement mandates that Art. 6 should promote sustainable development, many submissions do not discuss this issue at all. The

submissions that do discuss the question mainly revolve around the question of whether the provisions on cooperative approaches and the new mechanism should include international provisions on the promotion of sustainable development, or whether these should be left to the host countries. In particular developing countries posit that sustainable development issues are a national prerogative and should therefore not be subject to multilateral analysis under the UNFCCC. Others suggest that the UN Sustainable Development Goals provide a universal definition of sustainable development that could be used for assessing activities. In particular non-governmental organisations also call for requiring to conduct local stakeholder consultations in a manner that protects the right to full and effective participation of affected peoples and communities. They also call for establishing an institutional grievance process as a means of recourse for project-affected people and communities.

One Party notes that as in other provisions under Art. 6, it may be necessary for all Parties engaging in cooperative approaches to demonstrate adherence to the requirement of promoting sustainable development.

### **Who Will Guide Cooperative Approaches?**

On governance, there is a split on the question to what extent rule setting and enforcement for cooperative approaches should be done centrally, or be left to individual countries. Some countries propose to provide flexibility to “bottom-up” approaches, where Parties themselves would demonstrate environmental integrity. “Bottom-up” approaches could in their view best be tailored to the unique circumstances of the regions involved. Other countries posit that oversight by the implementing countries alone is not sufficient to ensure environmental integrity. They maintain that integrity can only be ensured if rules and governance structures are multilaterally-agreed and accountable to all Parties to the Paris Agreement.

### **What Types of Activities under the “Sustainable Development Mechanism”?**

In contrast to the Kyoto Protocol, the Paris Agreement does not specify that the new “sustainable development mechanism” is about “projects”, raising the question of the level of aggregation of activities (projects, programmes and/or sectors). Some countries argue for an “inclusive” approach in which projects, programmes of activities and sectoral approaches should all be eligible under the mechanism. Others envisage the mechanism to operate only at the project level, with rules very similar to those of the CDM.

### **Accounting for National Policies in the Sustainable Development Mechanism**

When the rules for the CDM were discussed there was a fear of creating a perverse incentive for developing countries not to strengthen climate policies. It was therefore decided that new national policies would not need to be reflected in the demonstration of additionality and setting of baselines of CDM projects.

The setting under the Paris Agreement is very different in that now all countries are expected to actively contribute to combating climate change. In the submissions, there is a corresponding consensus that additionality and baselines will need to account for national policies, except where NDCs are explicitly made conditional on the provision of climate finance.

### **Accounting Emissions**

While in the Kyoto Protocol all commitments are of the same type – absolute multi-annual emission budgets – countries’ contributions to the Paris Agreement have a huge variety of types. Some are targets for one year, some for several years, some refer to absolute emissions, some to emission intensity, some to a deviation from business as usual, and some not to emissions at all but to other indicators such as renewable energy. Accounting under the Paris Agreement will therefore be much more com-

plex than under the Kyoto Protocol. Targets that refer only to a single year are particularly problematic as emissions in that year may not be representative of the country's usual emissions profile.

Some countries therefore consider that countries wishing to participate in cooperative approaches and the new mitigation mechanism should be required to establish and quantify a budget of emission allowances or an annual trajectory of emissions towards their NDC objectives. Others suggest to further explore how reconciliation might occur between Parties with different NDC types.

Various Parties note that accounting for Art. 6 needs to be seen in the context of the work on broader accounting under Article 4.13, and on broader transparency under Article 13. They suggest that arrangements under Art. 6 are additional to those under Art. 4.13 and applicable only where Parties participate in transfers.

### **Defining Non-Market Approaches**

Adoption of the framework for non-market approaches was mainly pushed by the Like-Minded Developing Countries. In their submission, they outline some of the main purposes of the framework as assisting countries in implementing their NDCs in a holistic manner by facilitating access to finance, technology transfer, and capacity building for mitigation and adaptation, and contributing to map and register needs of countries and assisting them in matching them with means of implementation, as well as monitoring the support provided.

Other countries caution to avoid duplication of work with other processes under the UNFCCC. They suggest to focus discussions on possible synergies and coordination in non-market cooperation.

Various countries also suggest specific issues that could usefully be tackled under the new framework, including:

- Fossil fuel subsidy reform, this is mentioned by several countries;
- Phase-out of inefficient and polluting technology;
- Policy reform to create the enabling environment for increased deployment of renewable energy;
- development of NAMAs;
- reduction of black carbon;
- joint initiatives for the conservation of oceans and other ecosystems;
- the role of state-owned enterprises in fossil energy provision.

### **Ways Forward?**

Some of the discussions on Art. 6 are continuations of previous discussions on establishing a “new market mechanism” and/or a “framework for various approaches”. These discussions had for years revolved around the question of whether governance should be centralised or decentralised.

Evidently, these differences in opinion have not been settled. While cooperative approaches have been established as being subject to international guidance, not international governance, there still is the same controversy on whether the guidance should be binding and whether there should be international supervision or not. There also is controversy on whether the guidance should concern individual cooperative approaches or only the net mitigation results.

Similarly, discussions on the scope of the “sustainable development mechanism” echo past discussions on whether the “new market mechanism” should operate at the project or at the sector level.

Remarkably, discussions on non-market approaches seem to have moved past controversies on the usefulness of this issue, or lack thereof. There seems to be consensus that non-

market approaches are ones that do not involve the transfer of mitigation outcomes. There also seems to be some convergence on the way forward: listing and working out examples and on this basis identify how to move on. Some submissions give specific examples of issues that could be worked on.

For the other two mechanisms, it may also be useful to take a step back and first discuss what issues will need to be resolved to make Article 6 operational. This approach is taken by the submissions of Canada and the EU. While the other countries lay out their positions in their submissions, Canada and the EU mostly lay out questions that will need to be answered. First getting a clearer picture of issues to be resolved may help defuse some of the controversies that have accumulated over the past years.



**Wuppertal Institute**  
for Climate, Environment and Energy  
P.O. Box 100480  
42004 Wuppertal  
GERMANY  
[www.wupperinst.org](http://www.wupperinst.org)

